Legislative Fiscal Office

Louisiana in the Economic Vortex - A Blueprint for Escape

Prepared for:

The Honorable John J. Hainkel, Jr.
President of the Senate

The Honorable Charles DeWitt
Speaker of the House

The Honorable Members of the Louisiana Legislature

Prepared by:

John R. Rombach,
Legislative Fiscal Officer

The Staff of the Legislative Fiscal Office

February 4, 2003

This public document was published at a total cost of $ ($ per copy). 150 copies of this public document were published in this first printing. This document was published for the Louisiana Legislative Fiscal Office, Post Office Box 44097, Baton Rouge, Louisiana 70804 by the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804 in an effort to provide legislators, legislative and executive staff and the general public with an accurate summary of Louisiana spending practices in this document entitled "In the Economic Vortex - A Blueprint for Escape." This material was printed in accordance with the standard for printing by state agencies established pursuant to R.S. 43.31.

Contents

Legislative Fiscal Office

Louisiana in the Economic Vortex -

A Blueprint for Escape

Prepared for:

The Honorable John J. Hainkel, Jr.
President of the Senate

The Honorable Charles DeWitt
Speaker of the House

The Honorable Members of the Louisiana Legislature

Prepared by:

John R. Rombach,
Legislative Fiscal Officer

The Staff of the Legislative Fiscal Office

February 4, 2003

Introduction

In Louisiana government, or for that matter any government, there is a great tendency to put a spin on statistics. The good statistics are often spun so as to make things seem even better than they are, while a reverse spin is put on the bad statistics so that things don't appear to be quite as bad as they really are.

It's time to finally face the reality of our situation with the cold hard facts. Louisiana is at a crossroads that requires government leaders to choose the right path or face consequences unparalleled in modern state history.

This report is issued at a time when the state is currently dealing with a severe midyear budget crisis and, as has happened so often in the past twenty years, is facing a major budget crisis in excess of $500 million next year. Through the use of various charts and tables this report takes a look at how Louisiana stacks up to peer states in critical areas like economic development, education, health care, and overall spending.

The intent of the report is to enlighten the legislature about the issues that have frustrated so many governors and legislative bodies over the years in their pursuit of a better and more prosperous Louisiana. It's theme can be summed up very simply by an old saying that is paraphrased as follows: "if we do not pay attention to our history, we are doomed to repeat it." --- and we have, indeed, repeated it far too many times.

Louisiana has just come through the decade of the 90's, a decade that by any measure was one of the most prosperous ever for the American economy. True enough, it ended on somewhat of a down note, but all in all it will be remembered as a decade of unparalleled prosperity for the American people and their governments.

Given the prosperity of the 90's, it should have been a time when governments like Louisiana had the financial resources to catch up in many areas where it has languished behind its sister states. But statistics in this report will show that **while Louisiana made some progress in areas like education funding, it did not catch up with its peer states and has little prospect for doing that in the near future. This fact is the most tell tale sign that Louisiana has a structural problem with its service delivery models . . . one that cannot be fixed by adding more revenue to the equation.**

It is not enough to simply state this point over and over again. Administration after administration has grappled with the fiscal problems only to be frustrated in the end. **If Louisiana cannot make any more headway than it has after infusing over $4.7 billion additional dollars into state government programs over the past seven years, then it may be time to acknowledge that achieving success for Louisiana government and its citizens may require more than placing above average resources in the hands of well-intended government leaders.**

It hardly seems necessary to apologize in advance to public officials who would prefer to see the effect of their political labors in a better light than that cast by these statistics. While hindsight can be a harsh critic, it can also be a roadmap for the new state leadership who must plot a path around the minefields of the past. If nothing else, hindsight should serve as a warning that Louisiana cannot meet the public policy and economic challenges of the 21st Century with a service delivery model that was created in the 1930's.

The data comes from credible federal agencies and other governmental organizations like the U. S. Bureau of the Census, the U. S. Department of Education, and the Southern Regional Education Board (SREB). These agencies have high standards for selecting and standardizing data that is widely used throughout the nation to make public policy decisions. As far as we can tell, these agencies have no bone to pick with Louisiana and do not have a dislike for Louisiana or its people. Hence, they do not go out of their way to cast our state in a bad light.

This report is submitted in accordance with RS 24:603.1, and utilizes statistical analysis to address the following issues:

a) the state of of the Louisiana economy and fisc,

b) state, local, and total state/local spending and rankings relative to the U.S. average and southern average,

c) departmental rankings and spending comparisons,

d) development of "blueprints" of potential remedies.

Hopefully, this report will provide a starting point in the discussion and implementation of the critical and essential changes needed for a "paradigm shift" in the operational mode in Louisiana state government.

Budget Overview:

The Present: Another current year crisis

The current year fiscal problems facing Louisiana are mild in comparison to the severe difficulties facing most of the country. Despite this, our problem is worsening, not abating. The administration has already frozen $75 million in spending, utilized $86 million from the rainy day fund, and we are still at minimum between $20 to $60 million in the red (includes budget problems that have not been "officially" recognized).

Next Year: Another $500+ Million FY93/94 Budget Crisis:

This spring Louisiana will be facing an initial budget problem well in excess of $500 million, a portion of which can be eliminated through the usual underfunding of expenses that are not mandated (inflation, merit increases, annualization and nonessential workload increases, etc.). Much of this crisis is built around our health care system; the two headed hyra that consumes but doesn't produce.

Severe reductions to services will have to be proposed unless revenues increase substantially through a sudden upward turn in the economy; the magnitude of which is very unlikely. This report will shed light on why it is so difficult to cut budgets while having just increased them so substantially. The facts are that **any particular institution in Louisiana is under funded - despite the often healthy aggregate department budget size**. Until we address the institutional bias in this state, we will continue to be underfunded and suffer the resulting unsatisfactory outcomes.

But the bottom line is this:

Seven years ago, twelve years ago, twenty years ago – the time period is irrelevant; the fiscal crisis is the same. This spring Louisiana will again be facing a shortfall in the same magnitude as the past - a $500+ million shortfall. The same magnitude as the past, the same problems as the past, the same waste as the past……..nothing seems to change, because Louisiana state government doesn't really change.

Retro: FY95/96 - FY02/03:

The past seven years (FY95/96 - FY02/03) have provided us with conclusive evidence that more spending is not the answer to the state's problems.

The Louisiana budget has risen $4.7 billion during this period without resolving a single major fiscal issue - **notwithstanding the very good intentions and actions of this administration and legislature.**

The perpetual mantra of the embedded government bureaucrats is, "more money is the answer to our problems". **Thus, billions in new funding was poured into the budget and……..the money disappeared, lost amongst the vast quantity of state institutions and programs.** All of the bureaucrat's promises of success have resulted in amazingly little progress in the form of increased performance or in resolving Louisiana's economic problems.

A Reason for Optimism?

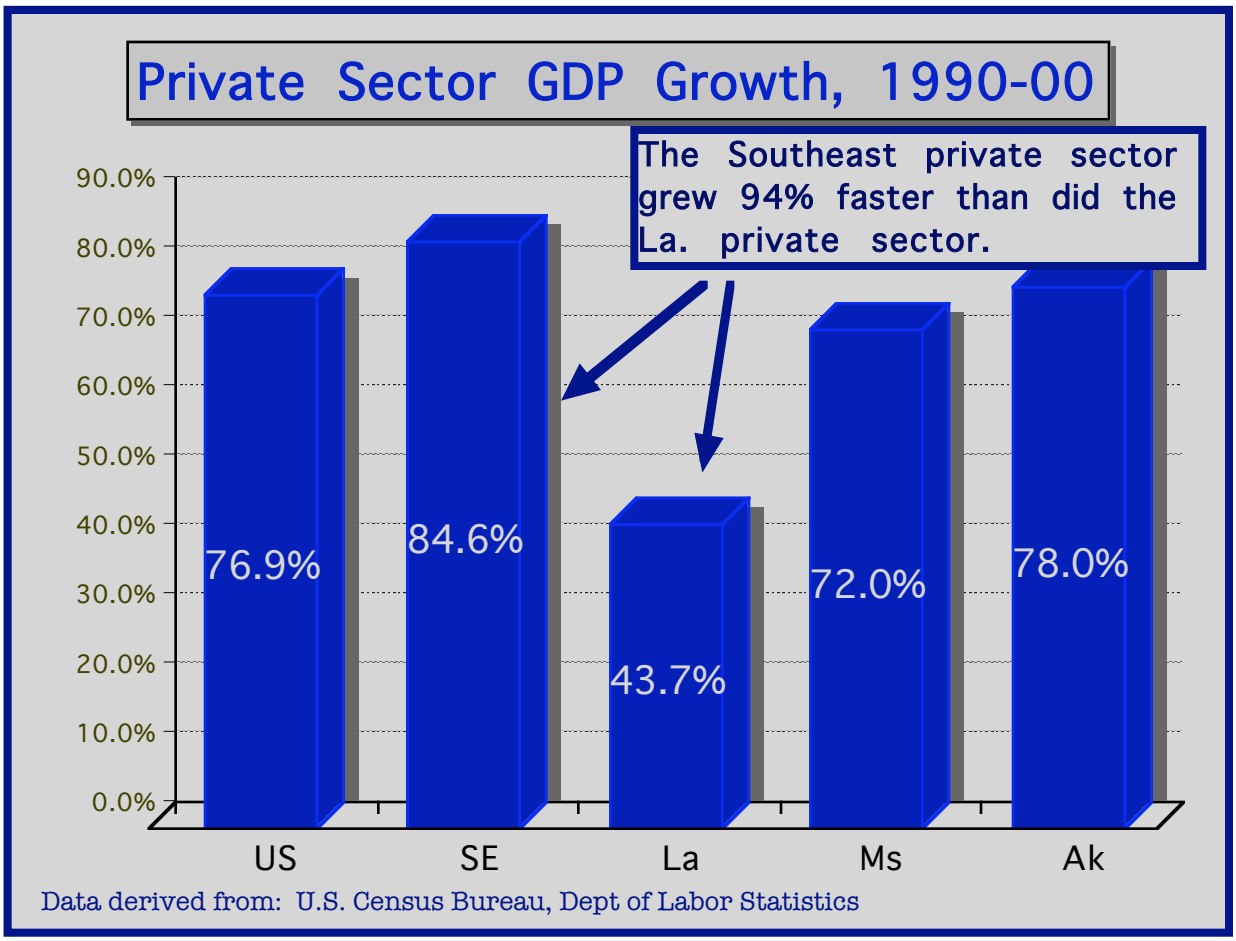
There is a bright side. Louisiana has abundant natural and economic resources, state and local government have more than sufficient funding, and the education and health care infrastructure is overbuilt, not under-built. Thus many of the tangibles essential for success are already present and available.

The critical question that remains unanswered is, "Does Louisiana have the courage to break with the outdated processes of the past and initiate the reforms necessary to compete in a modern era?".

We've intentionally left off a specific date and utilized "era". Why? Louisiana has such bountiful resources that it can compete successfully with our neighbors - if only we were to become at least a 1970's vintage state (much less a modern state). Unfortunately, we are stuck in a 1930's mode – and we can't compete with a "somewhat" modern Mississippi and Arkansas with 1930's mode of operation. Implementation of sufficiently modern changes would allow us to compete with the rest of the country and the world - and leave Mississippi and Arkansas behind.

Hopefully, this report will provide the groundwork for a new beginning.

The Dismal Economy - Louisiana in the Vortex

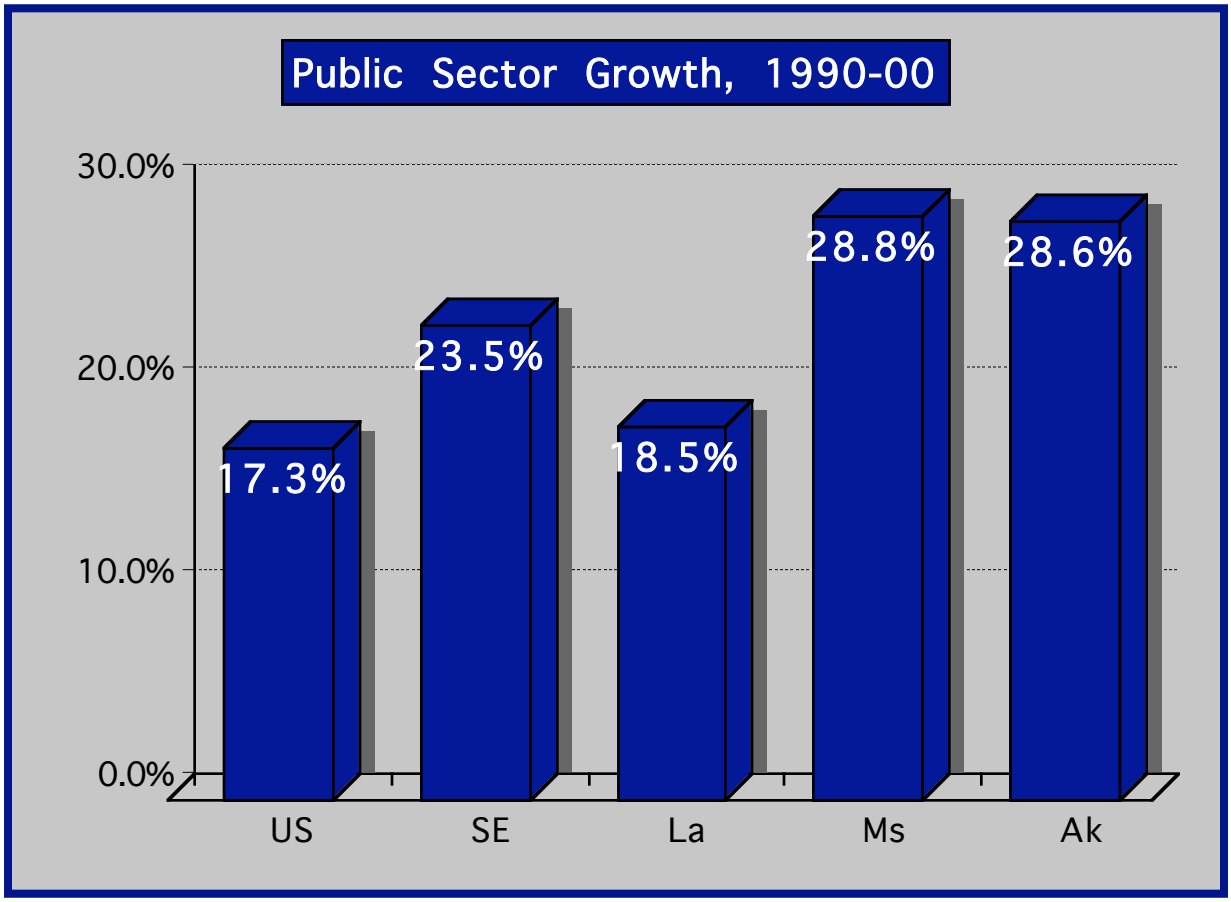


Much of the focus of the Governor and legislature recently has been on the problems with the Louisiana economy, specifically economic development.

As shown, La. has had dismal private sector growth - only 43.7 % growth in gross domestic product (GDP) during the time period from 1990 to 2000 while the rest of the country boomed.

This, in turn, has fueled the exodus of La.'s best and brightest young citizens to states that have high paying, high value added jobs such as Texas. In fact, **the average southern state private sector GDP growth outperformed Louisiana's private sector GDP growth by 94% from 1990 to 2000.**

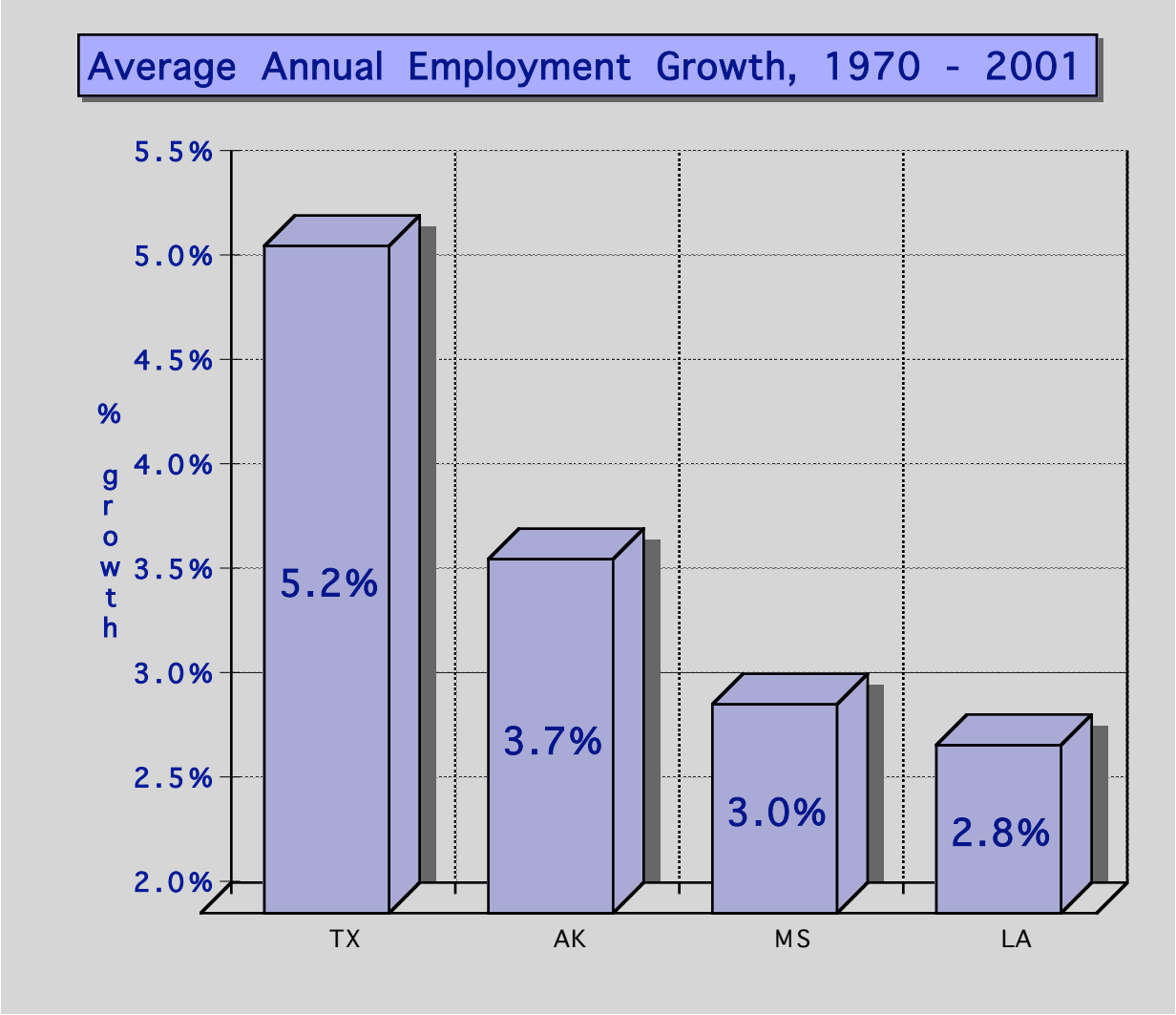
By contrast, the public sector growth rates are much closer - the southeast public sector outgrew La.'s by 27% (in contrast to the 93% in the private sector).



A comparison of the national growth provides an even more telling story. **Private sector growth nationally outperformed the La. private sector by 76.9% to 43.7% which is a 82% difference. By contrast the national public sector growth (17.3%) was less than the growth of the La. public sector (18.5%).**

These statistics precede the enormous La. budget growth in the past few years which, in all likelihood, far exceeded the national or southern average - hence it is likely that this disturbing pattern is understated in this presentation.

Most citizens 20 years old or older find it disturbing that the economies of our neighboring states, especially the grand state of Mississippi, seem to be passing Louisiana up. The notion of Mississippi surpassing Louisiana, if ever even considered, would have been considered nonsense thirty years ago, but all too real today.



As shown, Mississippi has outperformed Louisiana over the past 31 years in terms of employment growth with an average annual growth of 3% compared to Louisiana's 2.8%. On page 7 it was demonstrated that Mississippi's GDP growth exceed Louisiana's growth from 1990 to 2000 by the astounding difference of 92% (Mississippi) to 44% (Louisiana).

Louisiana is in very big trouble. We are nearing the center of the vortex.

The Role of Government

What should the government of Louisiana do to escape the economic vortex?

This question usually evokes cries for more money for education, health care, highways, etc. which are joined with cries for lower taxes, less government, etc. from the other side of the spectrum.

A view from the Right (cut taxes, shrink government):

If Louisiana were to greatly cut taxes while continuing its' current mode of operations, would the state's problems be solved? While cutting taxes can certainly be helpful in the competitive business environment, would the state's education, health, crime, highway, etc., problems be resolved from this action? Certainly not - the state's problems are far greater and very different than just high (and especially very unequal) taxation. Nor would slashing the budget fix the problems that are crippling the state's services.

A view from the Left (raise taxes, increase government):

If Louisiana were to provide billions of additional dollars to the budget, as the bureaucrats claim is needed to solve our problems - would we really solve the state's problems? Of course not - the budget growth during the past seven years has conclusively proven that throwing billions ($4.7 billion - in all of the right places) won't solve our problems. In fact, this naive approach has had amazingly little impact on the state's problems - the state's economic problems have significantly worsened in the past decade, not improved and a major fiscal crisis looms.

So what does the LFO recommend the government do?

In our humble opinion, government should do those things that the private sector doesn't or can't provide efficiently or effectively and which are essential for a good standard of living.

The above is overly idealistic and vague, so alternatively, what can the government do to stop dragging the state further into the vortex?

The administration has been focusing on the essentials - K-12 education, higher education, highways, health care... but hasn't addressed the underlying structural problems that have virtually guaranteed failure - failure despite billions of dollars of wasted taxpayers dollars - dollars that could be benefitting the state and ending this morass.

What is the root cause of this failure, this excess employment and nonproductive cost?

Throughout state government, Louisiana relies heavily on institutions to deliver of services. For example, other states utilize a decentralized health care system for the indigent care while La. relies heavily on the state run Charity system (L.S.U. Health Care Service Delivery System); a system that was innovative in the 1930's but became obsolete in 1960's with the passage of Medicare and Medicaid**.** Since the 1960's, Louisiana has fought against the forces of progress, wasting billions of hard earned taxpayers dollars in order to hang on to the past. The Charity system is but a very visible example of statewide obsolescence stretching from large "estate" style mental health institutions to a plethora of wanna-be universities.

Large institutional systems tends to have the following characteristics:

1) significantly higher expense than a decentralized system

2) requires a greater number of employees than a decentralized system

3) provide a lower quality of care than a decentralized system

4) tend to resist innovation and change in order to protect the institution's status quo.

5) unresponsive to the changing needs of the citizens they serve.

Southern State Comparisons:

State Employment

&

State Payroll

Statewide comparisons-
Excess State Employment?

For decades, the Legislative Fiscal Office has maintained that Louisiana employed far more employees than necessary for the services provided. This data indicates that this position is correct. As shown, **La. has over 21 state workers for every 1,000 state citizens, far outpacing the southern average of 16.99 per citizen**.

This difference equates to a total of 18,034 more state employees than what La. state government would have if at the southern average.

Excessive State Payroll?

Louisiana is second only to the very wealthy, northern state of Maryland in payroll per capita. La. is $149 per capita in additional payroll expense over the southern average ($704-$555).

La. state gov't. is $666 million over the southern average payroll.

State Gov't Employment per 1,000 persons		FY2000
SOUTH	16.99	
LOUISIANA	**21.03**	**1**
SOUTH CAR	19.99	2
MISSISSIPPI	19.87	3
WEST VIRGINIA	19.62	4
ARKANSAS	19.03	5
KENTUCKY	18.92	6
ALABAMA	18.88	7
OKLAHOMA	18.70	8
VIRGINIA	17.18	9
MARYLAND	16.98	10
NORTH CAR	15.84	11
GEORGIA	14.45	12
TENNESSEE	14.40	13
TEXAS	12.60	14
FLORIDA	11.44	15
La > South	**4.04**	
# of employees	**18,034**	

2001 State Payroll per capita (based on March 2001 payroll)		
SOUTH	$555	
MARYLAND	$727	1
LOUISIANA	**$704**	**2**
KENTUCKY	$687	3
ALABAMA	$686	4
SOUTH CAROLINA	$671	5
VIRGINIA	$644	6
ARKANSAS	$643	7
MISSISSIPPI	$639	8
WEST VIRGINIA	$638	9
OKLAHOMA	$634	10
NORTH CAROLINA	$571	11
GEORGIA	$507	12
TENNESSEE	$486	13
TEXAS	$466	14
FLORIDA	$422	15
La > South	**$149**	

State & Local Government Employment per 1000 population	FY2000	
South	55.5	Rank
MS	67.5	1
LA	62.7	2
AL	60.1	3
SC	58.4	4
OK	57.7	5
TX	56.7	6
NC	56.6	7
AR	56.1	8
KY	56.0	9
VA	55.3	10
GA	54.8	11
WV	53.6	12
TN	53.2	13
MD	51.9	14
FL	49.0	15
La > South	7.3	
# Employees	32,495	

2001 State & Local Payroll Per Capita		
South	$1,827	
		Rank
MD	$2,197	1
VA	$1,962	2
AL	$1,920	3
NC	$1,888	4
TX	$1,861	5
LA	$1,858	6
MS	$1,835	7
SC	$1,829	8
GA	$1,786	9
OK	$1,730	10
KY	$1,725	11
FL	$1,703	12
TN	$1,682	13
WV	$1,672	14
AR	$1,611	15
La > South	$31	
$ Impact	$139,238,961	

Statewide comparisons:
State & Local Employment

Given that La.'s state gov't employment far exceeds the southern average, will a smaller than average local sector compensate for this largess?

No, it does not - the combined La. state and local government employment is second in the south, again only behind Mississippi.

Louisiana's excess state and local employment amounts to over 32,000 employees over the southern average.

Excess State & Local Payroll?

This excess employment amounts to a cost over the southern average of $139 million. This is significantly below the state's excess payroll which was $666 million. It is reasonable to assume that the La. local gov't. has much lower average salaries than the other southern states.

Thus if La. were to achieve "average" levels of employment for both state and local programs, La. could still reduce spending by almost $140 million.

Achieving the southern average for any positive indicator is something that Louisiana has found to be increasingly difficult in recent years as the state's mineral-based economy and revenues decline. Louisiana does exceed the southern average for some indicators - but, by and large, only when it would preferable not to (negative things such as incarceration rates, drop out rates, etc.). The employment data discussed above is yet another example.

Louisiana exceeds the southern average but the excess employees don't produce the results that should be forthcoming from their employment - but this is not the fault of the employees. It is the outdated mode of service delivery and the inappropriate type of services delivered that are at the heart of the problem, not the employees' work effort.

The real problems lies with the decades of missed opportunity where the state (local and state) has failed to change as needs, technology and circumstances have changed over time.

Louisiana's response to changing times has been to hold on to the status quo and ignore the impending problems. By the 1990's these problems had grown so large that the out migration of the state's best and brightest workers had begun.

The current administration has made much to do about their

attempts to reduce positions in state government.

The following Division of Administration data on filled positions in state government demonstrates that state employment continues to grow unabated. The fact that this has occurred despite this administration's sincere efforts to reduce employment demonstrates the great difficulty encountered in attempting to efficiently manage the state's unwieldy institutions.

Per Capita State Spending

The following analysis utilizes U.S. Census Department data for comparisons of southern state spending on a per capita basis.

The first statistic is "direct expenditures" which is spending that includes both state and federal funding.

DIRECT EXPENDITURE PER CAPITA FY00	$	RANK
US	$2,695	
SE	$2,386	
WV	$3,425	1
SC	$3,098	2
KY	$3,068	3
LA	**$2,871**	**4**
MD	$2,835	5
MS	$2,715	6
AL	$2,690	7
AR	$2,568	8
NC	$2,524	9
VA	$2,427	10
TN	$2,195	11
OK	$2,185	12
GA	$2,154	13
TX	$2,119	14
FL	$1,948	15
La. > South	$486	
$ Impact	$2,170,317,053	

Louisiana ranks fourth out of fifteen southern states in this category, and has consistently rank in this range for a number of years.

Hence the argument that a lack of funding is the source of Louisiana's problems is obviously suspect.

On a per capita basis**, La. is $486 above the southern average.**

This equates to $2.17 billion over the southern average.

"**Current Operations**" is spending that includes state but not federal funding. The results: similar to direct operations - La. is still ranked fourth in spending. This per capita statistic provide us with an indication of the state taxpayer's effort, both from citizens and business, in funding state government.

Current Operations Per Capita FY00	$	RANK
US	$1,863	
SE	$1,690	
WV	$2,324	1
SC	$2,264	2
KY	$2,163	3
LA	$2,017	4
MS	$1,974	5
MD	$1,967	6
AR	$1,939	7
AL	$1,912	8
NC	$1,823	9
VA	$1,748	10
TN	$1,651	11
GA	$1,513	12
TX	$1,442	13
FL	$1,416	14
OK	$1,385	15
La. > South	$327	
$ Impact	$1,462,857,832	

As shown, Louisiana is $327 per capita ahead of the southern average.

On a per capita basis, these figures indicate that **La. is $1.46 billion over the southern average state spending for current operations.**

It is clear that the citizens and businesses of Louisiana are supporting state government with more than sufficient funding.

The bureaucrats will cry, "foul", and point to the state's massive charity hospital system as the cause of the state's lofty expenditure rankings. We will now proceed to investigate this notion using combined state and local expenditure data from the U.S. Census Bureau. The latest combined state/local expenditure data available is for FY99.

State and Local Per Capita Direct Expenditures, FY99

State & Local, FY99 Direct expenditure (Total Budget)		
South	$5,233	Rank
Tenn.	$5,587	1
N.C.	$5,515	2
LA	$5,446	3
S.C.	$5,445	4
ML	$5,402	5
ALA	$5,350	6
FLA.	$5,338	7
GA	$5,272	8
W.Va.	$5,196	9
Va.	$5,165	10
MS	$5,164	11
KY	$5,155	12
Tex.	$5,005	13
OK	$4,658	14
ARK	$4,606	15
OK	$1,385	15
La. > South	$213	
$ Impact	$931,540,769	

As shown, **combined state and local direct expenditures (federal, state, and local sources) are ranked third in the south and are $931 million above the southern average on a per capita basis, thus eliminating any logical notion that Louisiana government has a money problem.**

For the record, in FY99, local expenditures per capita were ranked ninth in the south and $1.14 billion below the southern average while state expenditures were ranked 4th and $2.07 billion over the southern average.

This $1.14 billion "underfunding" of local government is more than offset by the state's "over funding" of $2 billion for a net "over funding" of $931 million.

In regards to **current operations (state and local funded expenditures), the same result occurs. In this case, state and local expenditures are ranked 5th and exceed the southern average by $598 million.**

The constant debate over allocations of functions in Louisiana between state and local government clearly complicates the issue as to which entity is overburdened or under burdened, but this critical fact remains:

Louisiana government does not have a (lack of) money problem.

K-12 Education

% of 9th -12th graders who dropped out in 1999	% dropout	rank
Louisiana	**10.0%**	1
Arizona	8.4%	2
District of Columbia	8.2%	3
Nevada	7.9%	4
Georgia	7.4%	5
New Mexico	7.0%	6
Idaho	6.9%	7
Illinois	6.5%	8
Oregon	6.5%	9
Arkansas	6.0%	10
Alaska	5.3%	11
Mississippi	5.2%	12
Oklahoma	5.2%	13
Wyoming	5.2%	14
Kentucky	4.9%	15
West Virginia	4.9%	16
Missouri	4.8%	17
Utah	4.7%	18
Tennessee	4.6%	19
Vermont	4.6%	20
Minnesota	4.5%	21
Montana	4.5%	22
Rhode Island	4.5%	23
South Dakota	4.5%	24
Virginia	4.5%	25
Alabama	4.4%	26
Maryland	4.4%	27
Nebraska	4.2%	28
Delaware	4.1%	29
Ohio	3.9%	30
Pennsylvania	3.8%	31
Massachusetts	3.6%	32
Connecticut	3.3%	33
Maine	3.3%	34
New Jersey	3.1%	35
Wisconsin	2.6%	36
Iowa	2.5%	37
North Dakota	2.4%	38

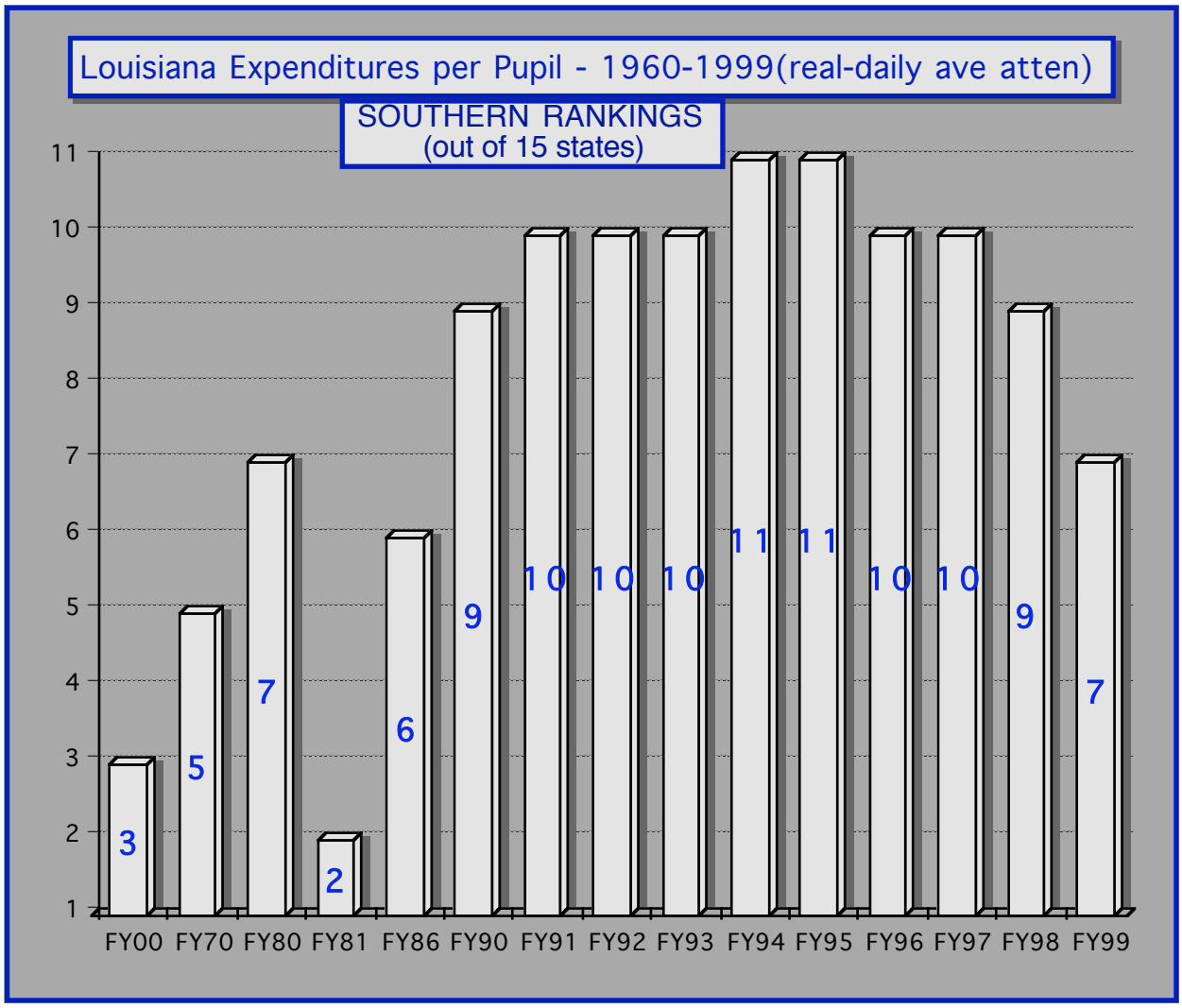
In regards to Louisiana education, there are many other "negatives" that can be mentioned, but few "positives". Louisiana easily outpaces the competition ---- unfortunately.

We will not spend our time reviewing this issue, since it has already been well established.

Instead, we will examine the state's education spending priorities and suggest a remedy to one of our biggest and most important problems - teacher's pay.

SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data survey; and unpublished estimates.

(Data on the states not listed was unavailable).

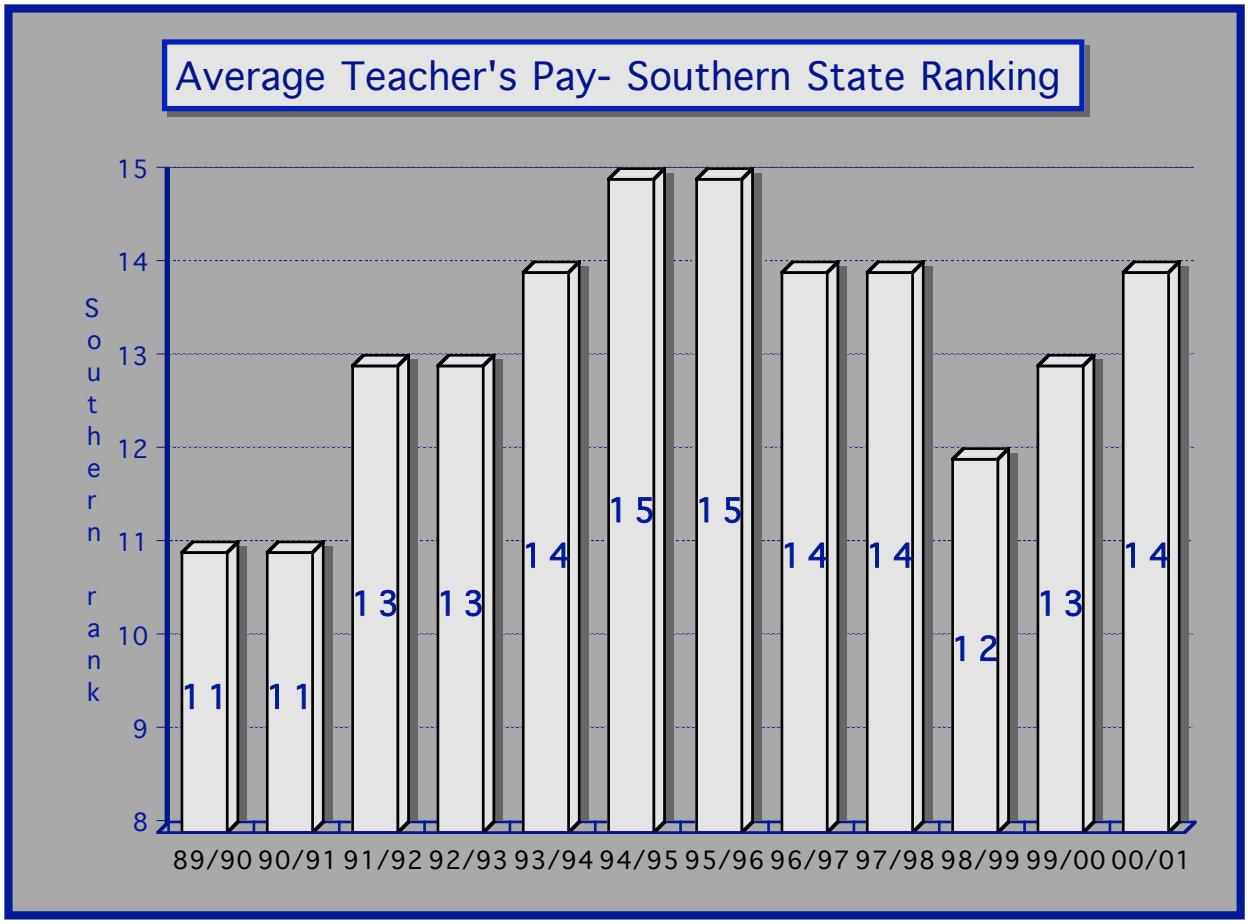


Louisiana's fortunes have dimmed following the oil bust in 1981 and is reflected in the state's inability to properly fund education - but it is clear that La. is not, nor ever was it "last" in funding as is so often proclaimed by certain prominent citizens and bureaucrats.

In recent years, through the herculean efforts of the legislature and administration, **La. has achieved a position that is only $49 million from the southern average in $ per pupil** -but still a long way from the lofty rankings of earlier decades.

Clearly significant funding progress has been made and due credit should be given to the administration and legislature.

Teacher's pay



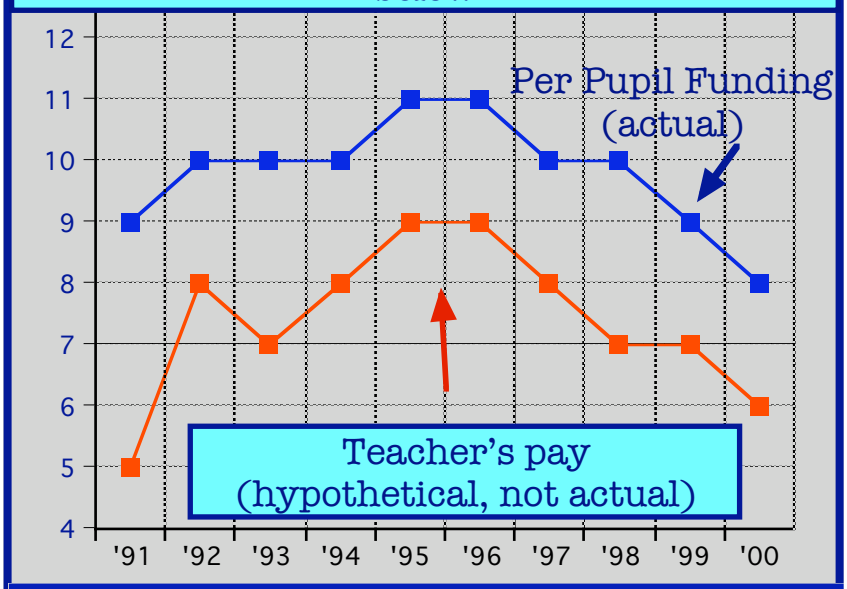
Teacher's pay in Louisiana has consistently ranked at or near the bottom in comparisons with other southern states. Due to the strong political pressure from teachers to remedy their plight, many governors run on platforms promising to address teacher's pay. However, teacher's pay is primarily determined at the local school boards and Board of Elementary and Secondary Education (BESE), not at the state capitol, as is commonly believed.

In recent years, two governors (Roemer and Foster) have made teacher's pay a major priority and have successfully allocated significant increases for this purpose. Despite these efforts, **teachers pay remains near the bottom of the rankings and, although some progress has been made, between $127 to $156 million is needed to achieve the southern average.**

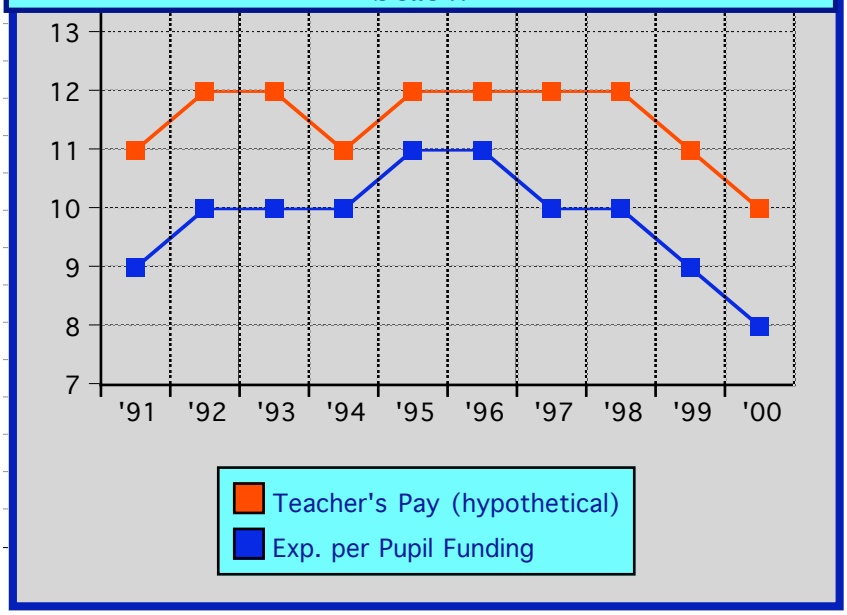
Education Priorities:

Is teacher's pay a B.E.S.E. and school board priority?

When Teacher's Pay is a High Priority:
Teacher's pay rankings will lie below expenditure per pupil rankings, as shown below



When Teacher's Pay is a Low Priority:
Teacher's pay rankings will lie above expenditure per pupil rankings as shown below



If "**yes**" is the answer, then the teacher's pay rankings would generally lie **below** the expenditure per pupil rankings as shown at left.

In this first example, teacher's pay, (a subset of pupil expenditures) lies below the average per pupil funding line.

Teacher's pay is receiving a greater than "average" share of expenses - thus teacher's pay would be a priority.

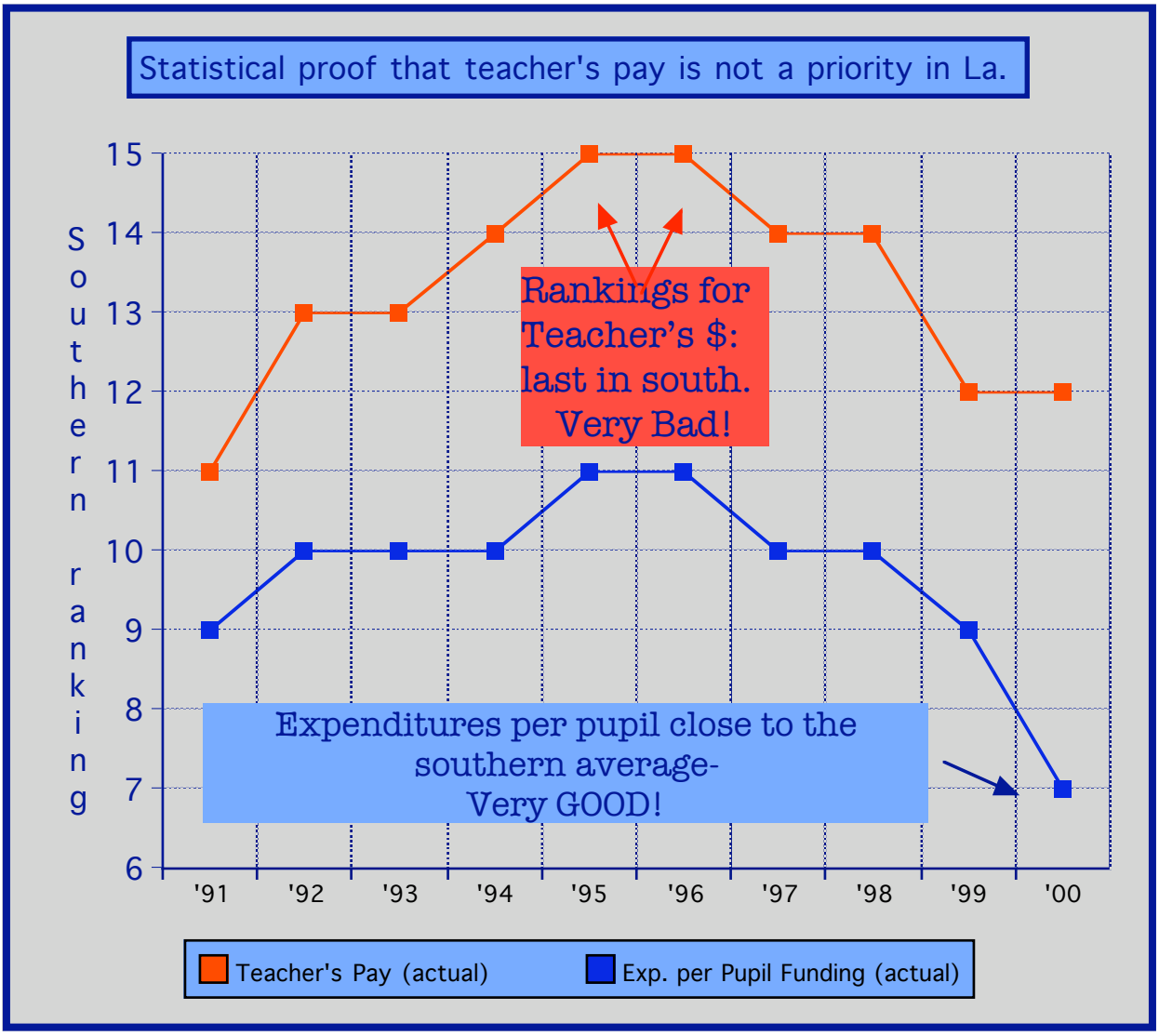
If the answer is '**no**", the rankings for teacher's pay would lie **above** the exp. per pupil rankings as shown.

In this case, teacher's pay is receiving a less than average share of expenses - thus teacher's pay would not be a priority.

The chart below plots the actual rankings for teacher's pay against the actual rankings for expenditures per pupil. As shown, teacher's pay lies far above expenditure per pupil rankings, which is not a good thing!

Louisiana is now funding education at (approximately) the southern average but teacher's pay is no where near the average. Teaching is the primary mission in the education process.

Something is seriously wrong.



This is statistical and logical proof that teacher's pay is not a priority for the BESE and the local school boards. (regardless of what anyone may say). Unfortunately, this has been the rule with Louisiana education priorities for too many years.

State	Instructional Expenditures	
South	**$3,482**	Rank
Md	$4,478	1
WV	$4,218	2
Va	$3,828	3
Ga	$3,753	4
NC	$3,494	5
Ky	$3,471	6
La	**$3,406**	**7**
Tex	$3,400	8
SC	$3,364	9
Fla	$3,328	10
Ten	$3,310	11
Ala	$3,241	12
Ok	$3,191	13
Ark	$3,185	14
Ms	$2,764	15
La/South	97.81%	
La	$3,406	
South	$3,482	
La-South	-$76	
$ Impact	-$57,601,482	

State	Employee Benefits	
SE	$597	
WV	$1,124	1
Md	$1,013	2
Va	$774	3
Ga	$755	4
Fla	$701	5
La	**$677**	**6**
SC	$606	7
Ky	$601	8
NC	$591	9
Ark	$544	10
Ten	$523	11
Ok	$518	12
Ala	$490	13
Ms	$485	14
Tex	$356	15
La/South	1.133	
La	$677	
South	$597	
La- South	$79	
$ Impact	**$60,095,352**	

We have established that teacher's pay is not a priority in Louisiana- now we must determine which education expenditure category is the beneficiary from this lack of emphasis on teacher's pay - i.e., what area is a priority for B.E.S.E. and local school boards in Louisiana? We'll begin with an analysis of education instructional expenditures.

La. Ranking for Instructional Expenditures:

Surprisingly, **Louisiana is 7th in instructional expenditures which is at the southern average (by rank) and only $57.6 million short of the dollar target**. This is a surprising statistic given that Louisiana teacher's pay rankings are no where near the southern average.

Given that Louisiana is almost at the southern average for instructional care, why are teacher's salaries so far behind?

Employee benefits is the top priority within the category of instructional expenditures; with a rank of 6th and is over $60 million above the southern average.

# of students per staff member	Total Staff	FY99
SE	7.95	
Md	9.04	1
Fla	8.78	2
Ok	8.49	3
Ala	8.37	4
Ten	8.15	5
NC	8.04	6
Ms	7.83	7
SC	7.8	8
Va	7.79	9
Ga	7.75	10
Tex	7.62	11
Ark	7.55	12
WV	7.54	13
La	**7.47**	**14**
Ky	6.94	15
# of staff	La. - South	6,087

# of pupils per teachers	pupil/teacher ratio	FY99
SE	?	
Ala	15.2	1
Ark	14.4	2
Fla	18.3	3
Ga	15.7	4
Ky	15.4	5
La	**15.1**	**6**
Md	16.6	7
Ms	16.3	8
NC	15.6	9
Ok	15.1	10
SC	14.7	11
Ten	15.1	12
Tex	14.9	13
Va	14	14
WV	13.8	15
# of staff	**La. - South**	**1,218**

K-12 Employment:

Louisiana is ranked 14th out of the southern 15 states in the number of students per staff member (this refers to number of students divided by the total educational staff).

This statistic means that: Louisiana employs over 6,000 more employees than the average southern state.

Of this 6,087 employees, **1,218 are teachers, allowing Louisiana to achieve a pupil teacher ratio of 15.1 and sixth in the south - which is a positive thing.**

The Louisiana education system employs 4,869 more non-teacher employees than the average southern state.

Identifying the Excess Staffing:

Staffing by function:

Louisiana K-12 Staffing over(+)/under(-) Southern average (by function)	FY99
District - Officials and Administrators	-492
District - Administrative Support Staff	-855
District - Instruction Coordinators	609
Net District Staff	**-738**
School Staff - Principals & Asst. Principals	86
School Staff - School & Library Support Staff	-576
School Staff - Teachers	1,218
School Staff - Instructional Aides	225
School Staff - Guidance Counselors	1,466
School Staff - Librarians	95
School Staff - Student support	-1,278
School Staff - Other support	**5,589**
Net School Staff	**6,825**
Total Staff	**6,087**

SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data survey; and unpublished estimates.

As shown above, Louisiana's district staff is under the southern average in by 738 employees and La. is well above the southern average in teachers. The "overage" in guidance counselors are roughly offset by the "underage" in student support staff.

The Louisiana K-12 education system employs 5,589 employees over the southern average in the "other support" category.

The U.S. Census Bureau defines the "Other Support" category as follows: media personnel, social workers, bus drivers, security, cafeteria workers, etc.

K-12 Expenditure Categories

As discussed earlier and shown in detail below, Louisiana K-12 education is:

Total Expenditures for Public Schools		
FY99		rank
South	$5,702	
Md	$7,283	1
WV	$6,808	2
Va	$6,294	3
Ga	$6,000	4
Fl	$5,683	5
SC	$5,638	6
La	$5,637	7
Ky	$5,624	8
Tx	$5,619	9
NC	$5,563	10
Ok	$5,315	11
Al	$5,238	12
Tn	$5,063	13
Ak	$4,969	14
Ms	$4,580	15
La-South	-$65	
$ Impact	-$49 million	

1) ranked 7th in the south and *functionally* at the southern average,

2) $65 per pupil below the southern average ($65/$5,637=1.15% from the average),

3) this amounts to only $49 million below the southern average.

If Louisiana were truly funded "in last place" (Mississippi) as preached by some, the shortfall would be $850 million, not $49 million.

SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data survey.

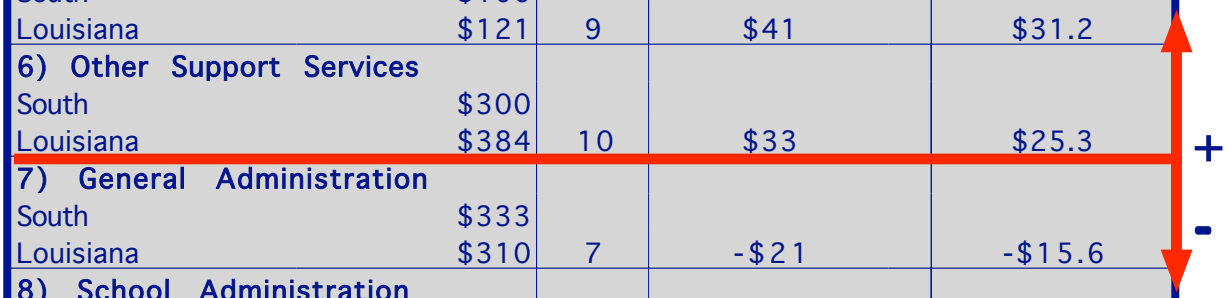
Education Expenditure data is presented in the charts below:

southern & La. expenditures (per pupil) by category,
southern rank,
per pupil difference for each category,
and the total dollar impact of this difference (in millions).

Education Expenditures sorted by "$ Impact" ($ amount that is La. greater than or less than the southern average)

Expenditure Category	Per pupil expenditures	rank	La-South = ($ per pupil)	$ Impact (in millions)
1) Food Services				
South	$20			
Louisiana	$71	2	$84	$63.4
2) Operation & maintenance				
South	$215			
Louisiana	$294	10	$81	$61.6
3) Student transportation				
South	$215			
Louisiana	$294	3	$79	$59.7
5) Instructional Staff * (non-classroom)				
South	$100			
Louisiana	$121	9	$41	$31.2
6) Other Support Services				
South	$300			
Louisiana	$384	10	$33	$25.3
7) General Administration				
South	$333			
Louisiana	$310	7	-$21	-$15.6
8) School Administration				
South	$553			
Louisiana	$471	11	-$23	-$17.7
9) Student Support expenditures				
South	$288			
Louisiana	$246	10	-$44	-$33.1
10) Other Current Exp.				
South	$75			
Louisiana	$23	14	-$51	-$39.0
11) K-12 Instruction (classroom)				
South	$3,482			
Louisiana	$3,406	7	-$76	-$57.6

* (expenditures for curriculum development, staff training, libraries, and media and computer centers)



1) **Food services** heads the list, with La. spending $63 million over the southern average. This category is primarily funded through the federal lunch program, which is approxmately a 9 to 1 state/federal match program. This excess costs La. **$ 6 million.**

2) **Operation and maintenance** is close behind at **$61 million**. This category would contain part of the excess employment discussed earlier (5,589 employees over the southern average in other support staff).

3) **Student transportation** is **$59.7 million** over the average. Some of this excess expense is due to the long standing federal consent decrees, some due to statutory law, some due to inefficiencies.

Transportation cost issues:

The LFO has attempted to contact the school districts to determine which was under a consent decree. Of the 44 that responded 33 are under a consent decree.

The following school districts have noted that desegregation orders have increased their transportation costs by these estimated amounts:

Parish	Oct.1,2002 Membership	Estimated Cost
Evangeline	6,144	$153,000
Franklin	3,627	$12,000 to $15,000
Rapides	22,287	$500,000

There are also some statutes that increase the costs of transportation to some districts. R.S. 17:158 states that certain parishes may provide transportation to students who live within 1 mile of the school. This increases the total mileage driven by each school bus morning and afternoon and bumps up the costs of reimbursement for mileage and fuel costs.

5) **Instructional staff** (non classroom) is **$31.2 million** over the average. This category of non classroom expense is ancillary to the classroom instructional role. While important, it is highly questionable why this category would be funded at a much higher priority than the direct classroom expenditure itself.

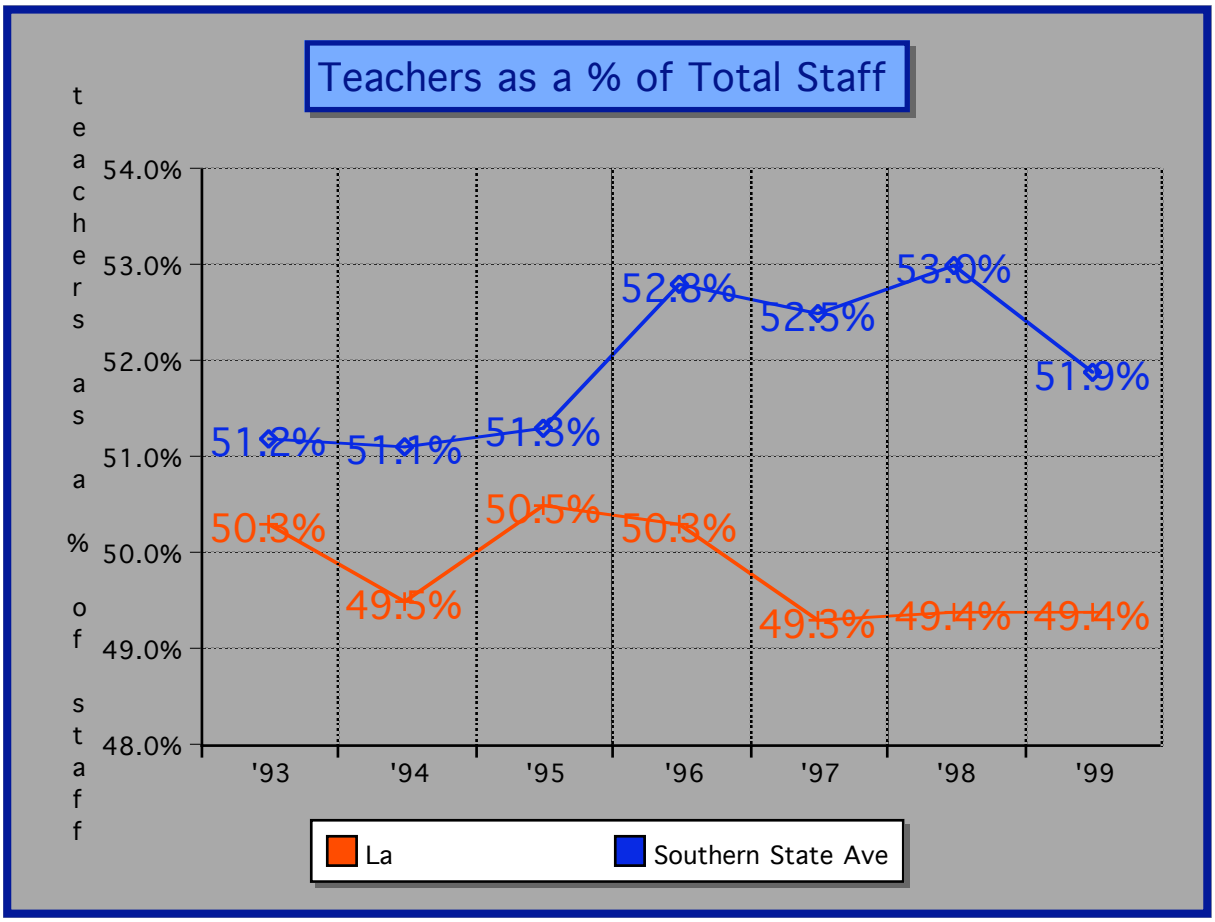
6) **Other support services** is **$25.3 million** over the average. This category would also contain part of the excess employment discussed earlier (5,589 employees over the southern average in other support staff).

The excess in these categories amounts to $241 over the southern average.

Louisiana spends in excess of $200 million over the southern average in areas clearly less important than the classroom - areas that should be prioritized much lower than the classroom.....

.....whereas classroom expenditures are $57.6 million below the southern average and have been made one of the lowest priorities by the education decision makers in Louisiana (whether intentionally or not).

Further entangling the Louisiana education situation is the following:



1) as shown above, **Louisiana has considerably fewer teachers as a percentage of total staff than the southern state average**
2) **while, simultaneously, employing 1,218 more teachers than the average southern state.**
3) **This situation has worsened significantly in recent years as school districts hire non-teaching staff at a faster rate than the hiring of teachers and as southern states hire teachers at a faster rate than non-teachers.**

La. is out of sync.

SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data survey; and unpublished estimates.

In the above analysis, it has been demonstrated conclusively that classroom expenditures and teacher's pay are not priorities in the Louisiana K-12 expenditures. The following will demonstrate the position that classroom salaries hold in the priority process.

Classroom Expenditure Categories
Louisiana versus the Southern Average
(per capita basis)

Expenditure Category	Per pupil expenditures	rank	La-South = ($ per pupil)	$ Impact (in millions)
1) Employee Benefits				
South	$597			
Louisiana	$677	6	$79	$60,095,352
2) Supplies				
South	$198			
Louisiana	$198	5	$1	$560,705
3) Tuition & other				
South	$29			
Louisiana	$5	11	-$23	-$17,774,046
4) Purchased Services				
South	$96			
Louisiana	$48	3	-$48	-$36,219,809
5) Classroom Salaries (teacher and teacher aides)				
South	$2,562			
Louisiana	$2,477	9	-$85	-$64,263,685
Total Classroom Per Pupil Expenditures				
South	$3,482			
Louisiana	$3,406	7	-$76	-$57,601,483

The chart above demonstrates that Louisiana does not place a high priority on classroom salaries - salaries for teachers and teacher's aides.

Finally, La. teacher's pay is ranked 12th in the south, $127 to $156 million from the southern average (depending on the method used). It is clear that, of all the expenditure priorities.....

.....teacher's pay is dead last.

What if.....

.....Louisiana were to find the roughly $156 million needed to achieve (approximately) the southern average for teacher's pay?

Funding per pupil would rise from the current rank of 7th to 5th in the south (out of 15) and...

.....Louisiana would be $107 million over the southern average for education funding but teacher's pay would just be at the average.

Under the current priorities, Louisiana will have to exceed the southern average for per pupil funding by $107 million just to achieve the southern average salary for teachers.

Legislative Fiscal Office suggestions/remedies:

The Legislative Fiscal Office maintains that **classroom expenditures should be the top priority** amongst major expenditure categories, since the education of students is the goal of education. However, the issue of teacher's pay as the top priority is a policy issue, to be determined through the normal process. It is, however, a major priority - if not first, then at least in very close proximity.

We have conclusively demonstrated that classroom expenses and teacher pay are at the bottom of the K-12 priorities. This is a clear and disturbing sign that something is amiss in Louisiana's education structure.

As mentioned earlier, teacher's pay and classroom expenditures are determined by B.E.S.E., local school boards, and (unfortunately) federal despots - not the governor or legislature. The public perception is that the governor and legislature are responsible for K-12 spending priorities, a notion all too often enforced by both B.E.S.E. and the school boards when teacher's pay is mentioned. Given this reality, a new arrangement of responsibilities should be adopted to more accurately reflect reality. One such possibility follows.

Constitutionally mandate that the state will fund the following classroom expenditures at the southern average:

1) **Teacher's pay -** each certified classroom teacher shall be paid a salary equivalent to the southern average based on a schedule utilizing experience, qualifications, and the southern pupil/teacher ratio.

2) **Textbooks, computers, classroom supplies, multimedia equipment, (etc.)** - each classroom funded at the Texas level which is roughly 50% higher than la. currently funds (Data on a southern average is N/A).

This concept would result in a titanic change in the state education system.

What are the pros and cons?

Pros:

1) The essential core education expenditures would be funded at a level rarely realized in recent Louisiana history.

2) A respectable salary would be available for certified teachers which will begin attracting more teachers and a higher quality of teacher.

3) Students would be guaranteed a sufficient amount and quality of textbooks,

4) Students and teachers would receive sufficient and modern classroom technology,

5) Students and teachers would receive sufficient education supplies,

6) Louisiana's education energies would no longer be distracted by the annual teacher's pay bloodbath and, instead, be focused on addressing other important education issues

Cons:

1) An equalization fund would have to be established for the poorest districts where their local funding is insufficient to cover a normal level of non-classroom expenses.

2) Local school boards would have a more difficult time raising local taxes if teachers were not the bait (this is really a positive thing).

The Cost:

The Legislative Fiscal Office has analyzed this concept and determined that sufficient funding already exists to fully fund this proposal, with the single caveat that the amount of "equalization" funding is currently indeterminable.

Teacher's salaries:

Based on the FY02 southern average of 15.3 pupils per teacher, the state would have to fund 49,450 teachers at an (southern) average FY02 salary of $38,834 costing **$1,920,341,300**.

Textbooks, Supplies, and Technology:

In 1999 La. spent $202,695,226 on these items. If La. were to spend at the same rate as Texas, the cost would be **$336,167,018** annually after allowing for 2.5% inflation per year. Southern average data is not currently available.

The total cost to implement this plan with the Texas funding for textbooks, etc., would be **$2,224,548,642.** The FY02 level of MFP funding was $2,453,506,423 billion. **The current MFP exceeds this definition of classroom expenses by $ 228,957,781, which can be used for equalization or other expenses.**

Higher Education Statistics:

We have all heard of the severe funding problems in Louisiana's colleges and universities which, despite the current administration's consistent efforts, is **$258 million under the southern average** (FY 2002-2003). We are last in the south with funding levels that are not even close to the second to last state. This data is calculated on a per "FTE" basis (funding per full time equivalent student).

Given the magnitude of the per FTE funding problem, the implication is that the citizens (or the state) of Louisiana do not place sufficient emphasis or financial effort towards funding higher ed, i.e., that Louisiana has neglected higher education.

Is the contention that the citizens of Louisiana are grossly underfunding higher education true?

No, it isn't true. By utilizing "per capita" analysis (which is utilized throughout the majority of this report) in lieu of "per F.T.E.", we are able to measure the actual funding effort of the citizens of Louisiana in supporting higher education - something that "per FTE" does not achieve. However, the LFO recognizes the underfunding problems that any specific state institutions is operating under.

Our intent is to determine the root cause of the higher ed problem - not mitigate the severity of the problem or to trivialize the political difficulties inherent in the remedy. We recognize and applaud the efforts of the Board of Regents in addressing the issues raised in this report (although we believe that the implementation is far too slow).

Attributes of the two types of measures:

Per capita analysis - (higher ed funding/population) measures the cost that each citizen pays, on average, for higher ed in each state. This is an extremely clean and easily comprehended concept.

In regards to this analysis, one issue is the definition of "total costs". The usual comparisons utilized by the higher ed boards excludes

many costs associated with higher education such as funding for higher education management boards, Aid to Private Institutions, Louisiana Library Network, and others.

The following analysis calculates the per capita funding utilizing the "Grapevine" data for aggregate higher education funding. The "Grapevine" is a National Database of Tax Support for Higher Education" developed and maintained since 1960 by the Center for Higher Education & Education Finance at Illinois State University. The Grapevine data are also reported in SREB publications and frequently utilized by the Board of Regents.

We have chosen to use data from the Grapevine for our comparison due to the consistent and accurate collection of such data for all states. The difference in total funding for Louisiana from the Grapevine and from the Louisiana Board of Regent's funding formula is small ($14 million - approximately 1.3 percent). However, we are using the Grapevine data for all states in the SREB for consistency.

Per FTE analysis - (higher ed funding/the number of full time "equivalent" students) measures the average amount of funding each state provides for each full time student based on student credit hours taken. This measure provides a comparison of the relative funding for operational purposes, which is important for any particular institution, but does not address the true total statewide funding effort.

There are many factors with the "per FTE" measure that can create skewed statewide results - such as the type or level of universities in a particular state. A very important factor is the average length of time it takes for a particular class of freshmen to graduate (in terms of student credit hours taken) and the graduation rate.

In regards to statewide effort, these problems are eliminated when using the "total funding per capita" measure which allows us to answer the issue concerning the taxpayers effort (or lack of) in funding higher education.

Using total funding per capita ratios....

2002	Appropriations Per Capita	Rank
South	**$228**	
NC	$298	1
MS	$282	2
KY	$267	3
Ala	$250	4
Ark	$243	5
Md	$241	6
Ok	$238	7
Tx	$238	8
Del	$238	9
Va	$234	10
La	**$223**	**11**
SC	$221	12
WV	$218	13
Ga	$203	14
Tn	$187	15
Fla	$172	16
La - South	-$4.19	
$ impact	**-$18,731,139**	

La. higher ed funding is not dead last but 11th in the south,

La. higher ed funding is only $4.19 per capita below the southern average, and

total La higher ed funding is only $18.7 million below the southern average on a per capita basis.

Given that the $258 million figure is the correct FTE based figure and the $18.7 million is the correct per capita based figure, we should ascertain the composition of the difference ($239 M) and determine what is creating this apparent dichotomy.

(Note: the LFO recognizes the difficult fiscal conditions that our institutions are and have been experiencing. We are exploring statewide problems, not specific institutional problems.)

Analysis of FTE "Enrollment" at Louisiana's Four Year and Two Year Universities:

La.'s FTE enrollment at 4 year institutions is 48,109 FTE's over the southern average (per capita basis).

La.'s FTE enrollment at 2 year institutions is 31,736 FTE's under the southern average (per capita basis).

The net excess FTE enrollment is 16,373.

FTE Analysis: La. +/- South			
FY01, FY02 avg.	Four-Year	Two-Year	Grand Total
FTE, La. +/- South	48,109	(31,736)	16,373
La $/pupil	$4,127	$3,169	N/A
$ Impact	$198,545,843	-$100,571,384	$97,974,459

Data Source: SREB

The net cost of the excess FTE's to La's. higher ed system is....

....$97 million per year.

What are the reasons for Louisiana's excess FTE's?

The Board of Regents mentioned demographics as a potential reason.

Demographic analysis:

(as compared to the southern average)

Demographic Analysis: La. +/- South	% Adult Population	% Adult Pop. in College	% Total Pop. in College
SREB	74.5%	6.3%	4.7%
LA	72.6%	6.6%	4.8%
Difference	(1.9%)	0.3%	0.1%

Data Source: SREB

The table above is based on information obtained from the SREB web page. Compared to the SREB, Louisiana has a slightly smaller percentage of its population who are adults. The table also shows that Louisiana has slightly more of its adult population in college compared to the SREB as a whole. However, examined together, the percentage of Louisiana's adult population in college is almost exactly equal to the SREB as a whole. This information excludes demographics as a possible explanation for Louisiana's unusually high per capita enrollment in higher education.

Speculation:

A more likely reason that Louisiana has more FTE's is that the students are less prepared for a normal college curriculum than the southern average - based upon the very disappointing K-12 results in Louisiana. Given the very open admissions policies in Louisiana, we are likely wasting vast resources by allowing students to enter universities that they are not prepared to attend resulting in:

high failure rates
lengthy entry/graduation periods
preparatory course FTE's and……

….All on the above will lead to an abnormally high FTE count.

LFO Recommendations:

1) **Require universities to charge for extra courses.** Currently a full time undergraduate student (minimum of 12 hours) can take up to 21 hours with no extra charge. Students tend to over enroll; dropping courses during the semester. FTE calculations are based on enrollment on the 14th day of class, not the end of the semester. Thus reported FTE amounts are greatly overstated. Granted that this is the customary university policy through the country, it doesn't mean that it is a smart policy. The LFO believes that the beginning of semester FTE amounts do not represent the true workload of the university or class professor. This is yet another weak link in the funding per FTE method as a measure of need - but this is easily corrected by using the end of semester FTE total (Regents jurisdiction. Note: TOPS would have to be modified).

2) **Require students desiring to attend Louisiana's public universities to take and pass an effective entrance exam before admission.**

3) **Require the school district to pay for the remediation/preparation courses if the student fails.** This will foster more due diligence on the part of the schools, school districts, BESE, and most importantly, the students (BESE jurisdiction).

4) **Encourage (through MFP funding incentives) more stringent college preparatory courses in high school (BESE jurisdiction).**

5) **Establish university enrollment caps based on infrastructure capacity.** This would create a major student realignment, allowing the state to greatly improve

resource utilization and allow the flagship university to achieve a student body that resembles a true Doctoral 1 research school. **Presently the flagship's mix of students closely resembles a four year teaching institution - not a research institution (far too many freshmen and sophomores; far too few graduate students and seniors). This is a major hindrance in the schools ability to:**

1) **perform top flight research,**

2) **attract top flight research professors,**

3) **receive the associated research grants,**

4) **the receive the associated prestige,**

5) **and reap the significant economic impact.**

These benefits will not happen as long as the flagship continues its' quest for quantity in the form of excessive enrollment. An enrollment cap would allow the flagship to achieve its true potential where students yearn for admittance, top professors are eager to be employed, and research is flourishing.

This is hardly the reality today.... and no amount of self deluding propaganda can change this reality.

(Regents jurisdiction / Flagship jurisdiction)

What if...

.....the citizens of Louisiana were to fund the requested FTE "shortfall" of $258 million, what would the impact on the tax burden of funding higher education for each citizen?

FY 2001-2002 Actual			FY 2001-2002 Actual			(Spend $258M to eliminate "FTE" shortfall and achieve FTE southern avg.)		
	Institutional $/FTE $258 M Shortfall			**Total $ per capita $18 M Shortfall**			Total $ per capita	
MD	$6,229	1	NC	$298	1	NC	$298	1
Kty	$5,892	2	Ms	$282	2	Ms	$282	2
Va	$5,575	3	Kty	$267	3	**La**	**$281**	**3**
Ga	$5,404	4	Ala	$250	4	Kty	$267	4
Ark	$5,352	5	Ark	$243	5	Ala	$250	5
Tenn	$5,298	6	Md	$241	6	Ark	$243	6
Ok	$5,236	7	Tex	$238	7	Md	$241	7
NC	$5,184	8	Ok	$238	8	Tex	$238	8
Tex	$4,896	9	Va	$234	9	Ok	$238	9
Fla	$4,823	10	**La**	**$223**	**10**	Va	$234	10
SC	$4,658	11	SC	$221	11	SC	$221	11
Ala	$4,510	12	WV	$218	12	WV	$218	12
Ms	$4,302	13	Ga	$203	13	Ga	$203	13
WV	$4,265	14	Tenn	$187	14	Tenn	$187	14
La	**$4,018**	**15**	Fla	$172	15	Fla	$172	15
SREB State General Support per FTE			South	$228		South	$230	

As shown above, the current FTE shortfall is $258 million below the southern average. If the $258 million is allocated to higher education (thus attaining the FTE southern average), the tax effort per citizen jumps from $223 per person to $281 per person and the tax effort ranking jumps from 10th to 3rd highest.

The Louisiana citizen will be paying $240 million ($258M minus $18 million) over the southern average for a 3rd highest ranking for higher education tax effort but will receive only an average FTE rank in return (7th or 8th).

Louisiana's higher ed funding woes are not a function of a lack of taxpayer effort, but rather a system is defined by :

a plethora of four year universities and a dearth of two year schools…

far too many student credit hours (FTE's)…

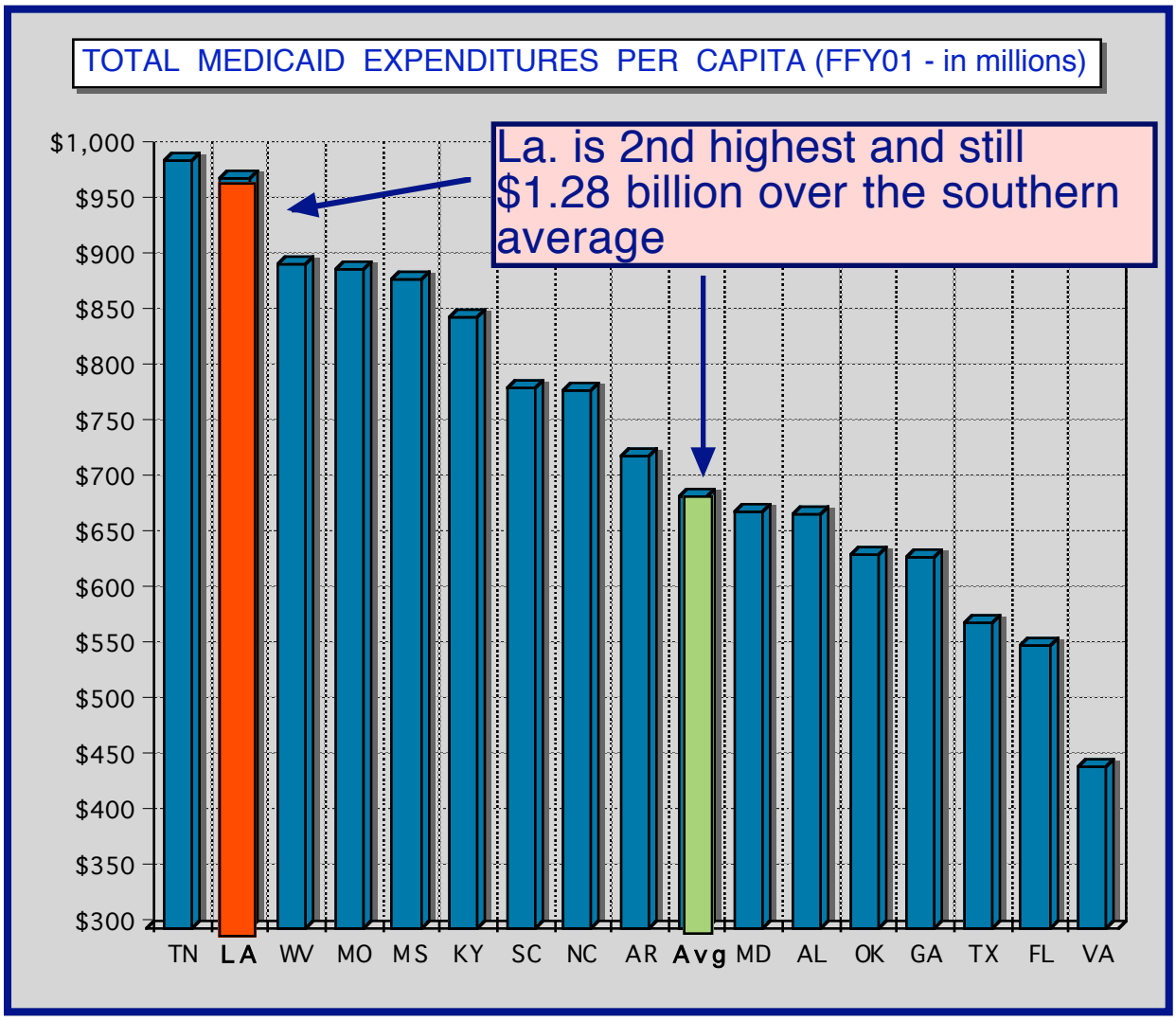
taking far too long to graduate…

with too many dropouts…

and too many "wannabe" universities.

This hardly seems fair, wise, or cost effective. But until the state reforms the way it does business, these are the cold, hard facts.

Health Care Comparisons



In FFY 2001, despite claims to the contrary, Louisiana was 2nd in the south and $1.281 billion over the southern average in Medicaid and Uncompensated Care Cost expenditures. There has been little change in these figures in the past decade.

The following data was presented to the legislature last spring. We have not yet received updated data yet but should receive it soon. We expect little if any change in the rankings, thus the findings remain valid.

Health Care in Louisiana
Rankings and Spending:

Personal Health Care Expenditures

Personal Health Care Expenditures (Per capita, public & private care) 1998	Per capita Spending	Rank - Nation	South
Ten	$4,053	9	1
Fla	$4,006	11	2
WV	$3,884	16	3
La	$3,782	21	4
Ala	$3,690	23	5
Kty	$3,664	26	6
NC	$3,621	28	7
Ga	$3,564	30	8
SC	$3,439	35	9
Tx	$3,437	36	10
Ark	$3,334	39	11
Ok	$3,290	41	12
Va	$3,279	42	13
Ms	$3,228	43	14

	Exp/cap
La	$3,782
Ark	$3,334
Ms	$3,228

	La exp/cap> Ms, AK
La-Ak	$448
La-Ms	$554

	$ Impact
La>Ak	$1,954,515,584
La>Ms	$2,416,967,932

Louisiana is:

4 in the south
9 in the nation

La. spends approx. $2 billion more than Miss. or Ark. for personal health care.

However...

Mississippi's ranking for overall quality of health care is 49th or 50th - in a constant battle with Louisiana for 49th.

Arkansas's ranking for overall quality of health care is 41th out of 50.

Mississippi, Arkansas and most of the nation rely on a decentralized health care system where patients have freedom of choice in providers.

Louisiana relies on a centralized charity system with unequal treatment between the state, parish, non-profit and for-profit providers highlighted by the capture of the uninsured by the state charity system.

Hospital care expenditures:

Per Capita Expenditures for Hospital Care
(State, local, nonprof, & private)

		Nat	South
La	$1,636	7	1
WV	$1,631	8	2
Ten	$1,523	13	3
Ala	$1,521	14	4
SC	$1,458	20	5
Kty	$1,457	21	6
NC	$1,456	22	7
Ms	$1,399	27	8
Ga	$1,361	32	9
Fla	$1,324	35	10
Ark	$1,310	37	11
Tx	$1,285	38	12
Va	$1,280	39	13
Ok	$1,263	40	14

	Exp/cap
La	$1,636
Ark	$1,310
Ms	$1,399

	La exp/cap>Ms,AK
La-Ak	$326
La-Ms	$237

	$ Impact
La>Ak	$1,422,259,108
La>Ms	$1,033,973,646

Louisiana is:

 # 1 in the south
 # 7 in the nation

Louisiana features a large excess of expensive inpatient institutions resulting in:

high expenditures ($1.4 billion greater than Ark., $1 billion more than Miss.),

poor results,

and a statewide problem of failing, half empty (or worse) hospitals (discussed below).

Louisiana Hospital Utilization

State Charities as of 03/02	infrastructure capacity in use
Conway	57%
EK Long	70%
HP Long	54%
University	61%
Moss	46%
L.Kemp	31%
Wash/St Tam.	64%
Chabert	56%
MCLNO	78%

Non State Hospitals Licensed Occupancy rates	
>75%	10%
60 to 75%	20%
<60%	69%

La. suffers from vast institutional overcapacity.

La. state charity hospitals operate with only two facilities over 70%, The result: closure of wings.

The Louisiana nonpublic hospitals are currently operating with only 10% of the facilities with 75% or more occupancy

whereas...

....69% have occupancy less than 60%.

State Charity Hospital expenditures :

(per capita)

Louisiana is: # 1 in the south
 # 2 in the nation

State Gov't Expenditures for Hospitals

1999	Per Capita	Nation	South
La	$293	2	1
Ala	$235	3	2
Va	$198	5	3
SC	$188	7	4
Ark	$158	10	5
Ms	$157	11	6
Tx	$130	15	7
NC	$117	17	8
Kty	$115	18	9
Tenn	$103	22	10
Ga	$85	28	11
Ok	$51	36	12
WV	$46	38	13
Fla	$37	42	14

	Exp/cap
La	$293
Ark	$158
Ms	$157

La exp/cap>Ms,AK

La-Ak	$135
La-Ms	$136

	$ Impact	SGF $
La>Ak	$588,972,330	$176,691,699
La>Ms	$593,335,088	$178,000,526

La. state hospital expenditures far exceed those of demographically similar states (Mississippi and Arkansas).

State Medicaid Expenditures for Hospital Care:
(per capita)

Louisiana is: # 1 in the south
 # 2 in the nation

Per Capita Medicaid Expenditures for Hospital Care			
1998		Nation	South
La	$340	2	1
Tenn	$277	5	2
SC	$238	9	3
Ky	$234	10	4
NC	$227	12	5
Ms	$226	13	6
WV	$197	23	7
Ark	$177	27	8
Ga	$176	28	9
Tx	$161	31	10
Ala	$158	32	11
Fla	$151	35	12
Va	$132	40	13
Ok	$117	45	14
	Exp/cap		
La	$340		
Ark	$177		
Ms	$226		
	La exp/cap>Ms,AK		
La-Ak	$163		
La-Ms	$114		
	$ Impact	SGF	
La>Ak	$711,129,554	$213,338,866	
La>Ms	$497,354,412	$149,206,324	

La. state hospital expenditures far exceed those of demographically similar states (Miss. and Ark.).

In the near future, many of Louisiana's hospital will close, thus the overcapacity situation will largely rectify itself.

Unfortunately, these market forces are skewed due to the state's disparate methods of funding the uninsured. Thus the closures may not be the closures that are the best for the state health care system.

The following is a discussion of potential remedies to the state health care problems.

Options for Louisiana's Health Care System

Current system – as demonstrated above, the current system relies on an outpatient system that is provided in an inpatient structure (hospitals).

This results in vast over capacity in inpatient beds and under capacity in needed clinic care characterized by:

-reliance on emergency care
-lacking satellite based preventive medicine
-captive patients forced to utilize an inferior system (no choice)
-care driven by funding concerns

The state should shift the planning and emphasis to:

-access to primary care and prevention,
-quality of care
-access
-health promotion, and
-cost/benefit/efficiency/effectiveness concerns

Potential options -

Structural/System Options

-Cooperative endeavors: public/private partnerships

*provide for greater efficiencies
*reduce existing service redundancies in community
*shared risk/liability

-Primary care network development: expand primary care and prevenion services statewide by accessing federal network based grants and community access grants

*provide technical support to communities to develop primary care access/health infrastructure

*potential to include all providers in a community (federally qualified health clinic's, rural health centers, private physicians and clinics, medical transportation)

*funds direct services as a result of collaborations

-Service district: regional model concept supported through local taxing authority

*supported through local funds

*specified district provides full range of community based services related to inpatient and outpatient services, mental health, substance abuse, public health, and developmental disabilities.

*board of directors/governing authority

Fiscal/Payment Options

-SCR 27 of the 2002 regular session: changes in disproportionate share (dsh) methodology currently underway with the intent to recommend a common acute care hospital payment methodology

*expands eligibility for dsh allowing the dollar to follow the patient

*more efficient spending by redefining UCC to cover cost of covering uninsured and not Medicaid shortfall

-Partial Medicaid expansion: new HIFA (Health Insurance Flexibility Accountability Act) waiver

*partial expansion of coverage to new populations that cover primary care only

*can be capped

*will allow patients 'choice'

-Redirect funding to public prevention activities:

*disease management

*school based health

Transportation

A 2000 study by Dr. David Hartgen of the University of North Carolina at Charlotte which shows that the LADOTD spent 15 cents of every highway dollar on administrative costs. This study notes that the national average was less than 7%. While this study attempts to compare administrative costs across the nation, differences inherent in Departments of Transportation make comparisons of this nature invalid. Differences in state accounting systems, data collection and reporting, and most importantly, the definition of administrative costs clearly lead to flawed comparisons. According to DOTD, the Federal Highway Administration (FHWA) and the American Association of State Highway and Transportation Officials (AASHTO) have both strongly warned against using this study to compare states.

While the Secretary of DOTD is requesting a special session to increase gasoline taxes by $200 million per year to find a long-term solution to the state's road problems, most of this amount is currently being collected through gasoline taxes but spent on expenses not directly related to highway construction. While the state constitution does allow for these non-construction related expenditures currently, it could be argued that the average taxpayer is totally unaware that over $100 million derived from the 20 cent gasoline tax is not spent on road construction. With the shortage of available highway construction dollars as noted by Governor Foster and Dr. Movassaghi, the LFO questions the wisdom of expending this level of TTF on expenditures not related directly to highway construction. **The FY 03 budget includes a total of $90.7 million for the following expenditures from TTF which are not related to construction:**

$39.2 million for state police for traffic control purposes;

$20 million for the Port Priority Program;

$10 million for flood control;

$5.1 million for UAL (one-time payment); and

$16.4 million for insurance costs for retired employees and surviving spouses

Unfortunately, this level of funding takes away from critical transportation projects and appears to have grown over the past several years. Funding provided to State Police has grown by 400% since FY 96. In addition, the Constitution states "... that no less than the avails of one cent of the tax on gasoline and special fuels shall be appropriated each year to the Parish Transportation Fund,..." This language is interpreted to mean $.01 or approximately $27 million dollars may be applied to the Parish Transportation Fund. However, the FY 03 budget for the Parish Transportation equals $.015 of the tax on gasoline or approximately $40 million.

A shift away from these uses would have to be complimented with funding from another source, probably state general fund. This could, perhaps, be phased in over time to allow the normal revenue gowth to absorb the impact on the general fund.

Welfare Reform, Job Retention, & Education - *revisited*

The state's welfare recipients could be better served if three DSS functions – employment, caseworker utilization and education training - were revamped. These are not new issues – other states which are more advanced in welfare reform efforts have already encountered and developed solutions to these problems.

Employment

The "Find Work" program is not working. Let the Department of Labor take over the employment functions currently performed by DSS – a recent study, commissioned by the legislature – found that the DSS "Find Work" program is not functioning to put people to work and keeping them employed. Before this function can be transferred, certain structural changes must be made in the DOL. Incumbent worker training is one of the primary programs operated by DOL – and this program doesn't really help welfare recipients.

If DOL took on the responsibility of helping employ welfare recipients, the department would have to be restructured to make the "One Stop" job services centers work properly. One Stop shops are centers where, in theory, a recipient can get all necessary employment services. In practice, they do not work as planned. **The state has no proven, centralized program in place which puts welfare recipients to work.**

The bottom line is job hunting is difficult enough for skilled people already in the labor market. Unskilled workers face many more difficulties. Without some sort of help, many cannot find enough employment to earn enough to be self-sufficient.

Caseworker Utilization

Use caseworkers more efficiently – currently, welfare recipients must work to receive benefits. Much of the field caseworker's time is spent verifying employment and hours worked. Other states make the recipient provide proof of employment, which is audited. **As much as 70 percent of a caseworker's time is spent verifying employment hours.** This time could be better spent working on case management. Requiring a recipient to provide employment documentation also helps teach personal responsibility which is one of the goals of welfare reform.

Instead of being a service provider, DSS could consider out sourcing services through performance-based projects and using caseworkers to manage cases and refer recipients to proper providers. This would also increase private sector capacity in social services.

The bottom line is **DSS needs to move in the direction of true case management rather than having its skilled caseworkers performing clerical functions.**

Education

With welfare reform in 1996, emphasis has been placed on putting welfare recipients to work. A statewide welfare needs study; commissioned by the legislature, found that many recipients did not possess a high school diploma or a Graduation Equivalency Diploma. Most jobs require at least this level of education. Before welfare reform, DSS concentrated on providing opportunities for recipients to earn a GED. **As welfare reform shifted efforts to work requirements, DSS essentially dropped its education focus.** The Berkeley Needs Assessment found that most welfare recipients who got off of welfare but then returned to welfare did not have this level of education.

According to the needs assessment study commissioned by the legislature, **a recipient with a high school diploma made at least $2,000 per quarter more than someone without one.** Also, the study found that recipients without a diploma ended up back on welfare within a year.

The bottom line is without at least a high school education, welfare reform is a revolving door with recipients getting jobs then losing jobs and rarely able to support themselves over the long haul.

Other States

Some states that have had success in these areas and could provide a model for Louisiana to follow in revamping its programs are Illinois, North Carolina, Florida and Texas.

Final remarks from the Fiscal Officer:

The issues and problems surrounding Louisiana state government are largely self induced - brought on by a detrimental resistance to progress.

It is clear that the state has more than adequate funding. The never-ending battle for funding for health care, K-12 education and teacher's pay, and higher education are the result of this defiance to change - not from a need of more funding.

In this report, we have clearly demonstrated the following:

* Overall state funding is more than sufficient

* The state suffers from over-employment in areas where the services do not match the needs citizens of the citizens

* the K-12 system has its' priorities almost perfectly backwards - so much so that one is inclined to believe that it is intentional (surely it is not)

* K-12 has sufficient funding but it doesn't get to the classroom.

* On the surface, La. health care appears so over funded that we should be drowning in money. But Louisiana seems to have an inverse relationship between money spent and the quality of health care. Budget cuts will be painful because any one institution is honestly underfunded (and usually underutilized). The quantity of institutional care is choking the quality out of the system.

More research is needed to identify why Louisiana has fewer citizens participating in higher ed but, simultaneously, we have far more student credit hours being taken. It is the belief of the LFO that the La. higher education problem stems from an ill-prepared student body.

The higher education problem is not due to a lack of tax effort from the taxpayer.

The LFO is encouraged by the Board of Regents recognition of many of the internal problems that are dominating the financial resources. The remedy lies with the K-12 product. The legislature should consider legislation in regards to college preparation.

Finally, one last thought for consideration. The state has just increased the budget by $4.7 billion in only seven years. Yet, not a single major issue (teacher's pay, higher ed shortfall, health care funding crisis, etc.) has been resolved.

We must now face major budget reductions that are going to be painful. How is it that we can add $4.7 billion ($3 billion state funds) but can't cut $500 million? Because we have have such a vast quantity of institutions and programs that "gobble" up the funds but never get full. They are all still under funded! Thus cuts are harmful to any particular institution.

Furthermore, there is little noticeable improvement in the general welfare of the citizens from the additional $4.7 billion.

We have been going through these futile boom and bust spending patterns for thirty years with little progress.

Louisiana is in a very dangerous vortex. It is time for a change - before it is too late.

Appendix

Sources

Vortex employment

http://www.census.gov/govs/www/estimate00.html

01state-all-emp.xls

01Statelocal-emp.xls

Vortex expenditure

http://www.census.gov/govs/www/estimate00.html

00statesexps.xls

99stloctot exps.xls

Vortex K-12

1-expperpupil168-final.xls
http://nces.ed.gov//pubs2002/digest2001/tables/dt161.asp

2-K-12expfunc162.xls
http://nces.ed.gov//pubs2002/digest2001/tables/dt162.asp

3-Teacher's salaries-finalz.xls
http://nces.ed.gov//pubs2002/digest2001/tables/dt078.asp

4-Staffvsteachers.xls
http://nces.ed.gov//pubs2002/digest2001/tables/dt082.asp

5-Instrucexp-finalz-166.xls
http://nces.ed.gov//pubs2002/digest2001/tables/dt162.asp

Vortex Higher Ed

http://www.sreb.org/main/EdData/DataLibrary/highered/enrollment/enrollment.asp
fb19.xls --- SREB

Vortex Health care

http://www.unitedhealthfoundation.org/rankings2001/rankings.html